



NETEL TECHNOLOGY (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8256

Third Quarterly Report
2008/2009



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly, disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Netel Technology (Holdings) Limited (“Netel”) collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to Netel. The directors of Netel, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded bases and assumption that are fair and reasonable.

CONDENSED CONSOLIDATED INCOME STATEMENT

The board of directors (the "Directors") of Netel Technology (Holdings) Limited (the "Company") are pleased to announce the following unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and nine months ended 28 February 2009 together with the comparative unaudited figures for the corresponding period in 2008:

	Notes	For the three months ended 28 February		For the nine months ended 28 February	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Turnover	3	1,107	959	4,038	3,449
Cost of sales		(650)	(624)	(1,905)	(2,075)
Gross profit		457	335	2,133	1,374
Other revenues	3	1	153	31	971
Selling and marketing expenses		(3)	(11)	(97)	(218)
Administrative expenses		(1,420)	(783)	(4,028)	(4,246)
Loss from operating		(965)	(306)	(1,961)	(2,119)
Finance costs		-	(1)	-	(8)
Share of loss of an associated company		(66)	-	(178)	-
Loss before taxation	4	(1,031)	(307)	(2,139)	(2,127)
Taxation		-	-	-	-
Loss after taxation		(1,031)	(307)	(2,139)	(2,127)
Attributable to:					
Equity holders of the Company		(1,031)	(307)	(2,162)	(2,127)
Minority interests		-	-	23	-
Loss for the period		(1,031)	(307)	(2,139)	(2,127)
Loss per share					
- basic and diluted	5	HK (0.20 cents)	HK (0.08 cents)	HK (0.43 cents)	HK (0.55 cents)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Corporate information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are trading of telecommunication equipment, provision of long distance call services and provision of value added telecom services.

2. Basis of preparation and principal accounting policies

The unaudited condensed consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Accounting Standards ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants and the applicable the disclosure requirements of GEM Listing Rules.

This condensed financial information should be read in conjunction with the financial statements of the Group for the year ended 31 May 2008.

The accounting policies and methods of computation used in the preparation of the unaudited condensed financial statements are consistent with those adopted in preparing the annual audited financial statements for the year ended 31 May 2008 except for the adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRS"), which also include HKASs and interpretations, amendments to standards and interpretations (collectively "New Standards") which are effective for accounting periods beginning on or after 1 June 2008 as set out below.

HK (IFRIC) – Int 11	HKFRS2 Group and Treasury Share Transactions
HK (IFRIC) – Int 12	Service Concession Arrangements
HK (IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above New Standards has no material impact on the accounting policies of the Group and the methods of computation in the Groups' unaudited condensed consolidated financial statements.

The Group has not early applied the following new and revised standards and interpretations that have been issued but are not yet effective for the current accounting period. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have not material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellation ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK (IFIC) – Int 13	Customer Loyalty Programmes ³

¹ *Effective for annual periods beginning on or after 1 January 2009*

² *Effective for annual periods beginning on or after 1 July 2009*

³ *Effective for annual periods beginning on or after 1 July 2008*

3. Turnover and Other Revenues

Turnover represents the aggregate of the service income from the provision of long distance call services, the provision of value added service on telecom and the sales revenue from the trading of telecommunication equipment in Hong Kong, Mainland China and other countries.

Other revenues mainly comprise income from gain on disposal of fixed assets and reversal of over provision of impairment of receivable in respect of prior year.

4. Taxation

No provision for Hong Kong profits tax has been made in current period as the Group has no estimated assessable profits for the period (2008:Nil).

No deferred taxation has been provided as the Group has no material unprovided deferred tax assets/liabilities which are expected to be crystallized in the foreseeable future (2008: Nil).

5. Loss per share

The calculation of basic loss per share are based on the unaudited loss attributable to equity holder of the Group for the three months and nine months ended 28 February 2009 period of approximately HK\$1,031,000 and HK\$2,162,000 respectively (unaudited loss attributable to equity holder of the Group for the same period ended of 2008: approximately HK\$307,000 and HK\$2,127,000) and the weighted average number of 524,820,700 and 503,654,986 ordinary shares in issue during the three months and the nine months ended 28 February 2009 (the same period ended of 2008: 388,730,000 and 388,174,444 ordinary shares).

Diluted loss per share for the current and prior period is not presented as there is no dilutive instrument granted by the Company.

6. Reserves

	Attributable to equity holder of the Company					Total HK\$'000
	Share Premium HK\$'000	Exchange Reserve HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000	Minority Interest HK\$'000	
	Balance as at 1 June 2007	19,855	–	(50,045)	(30,190)	
Issuance of new shares	10,945	–	–	10,945	–	10,945
Translation of foreign reserve	–	61	–	61	–	61
Profit/(Loss) for the year	–	–	(598)	(598)	88	(510)
Balance as at 31 May 2008 (audited)	30,800	61	(50,643)	(19,782)	88	(19,694)
Issuance of new shares	1,571	–	–	1,571	–	1,571
Profit/(Loss) for the period	–	–	(2,162)	(2,162)	23	(2,139)
Balance as at 28 February 2009 (unaudited)	32,371	61	(52,805)	(20,373)	111	(20,262)

7. Litigations

As at the date of this report, the Group has been involved in the following litigations:

- (a) On 16 December 2004, a writ was issued by a telecom service provider (“Plaintiff”) against two wholly-owned subsidiaries of the Group and a director of the Company for outstanding and disputed invoices and claimed that the subsidiaries and the director have no right to defense. On 20 July 2005, the High Court ruled that the subsidiaries and the director had right to defense and refused to grant order to the Plaintiff. The Plaintiff failed to comply with the Court’s direction that the case be set down for trial in August 2006 and up to date of this report the Plaintiff has failed to submit further evidence to substantiate the claim. The Directors have sought the opinion from the legal advisor of the Group to review the legal position on this case and conclude that the Group has a strong ground to defend and the net payable approximately HK\$2,166,000 to the Plaintiff is considered adequate.
- (b) The Group has a number of litigation processings in respect of outstanding payable liabilities arising in the normal course of its business of approximately HK\$1,105,000. The amount of the liabilities is adequately recorded in accounts payable for the period ended 28 February 2009. The Directors are of the opinion that the ultimate liability under these proceedings, if any, would not have any significant impact on the financial position of the Group.

- (c) On 15 December 2008, the Group discussed with the legal adviser of the Group against a telecom operator on a potential claim and disputed invoices, the Group has filed a statement of claim on 14 September 2006. On 27 February 2009, both parties agreed to attend a mediation briefing on 25 May 2009. The Group will seek the opinion for the legal adviser to review the pursuing. The Directors are of the opinion that this litigation would not have any significant impact on the financial position of the Group.

Apart from the actions against the Group disclosed above, there were no other material outstanding writs and litigations against the Group and/or the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group recorded a total turnover of approximately HK\$1.11 million and HK\$4.04 million for the three months and nine months ended 28 February 2009, an increase of approximately HK\$0.15 million and HK\$0.59 million from approximately HK\$0.96 million and HK\$3.45 million for the same period of last year. The increase was attributable to the increase in SIP service revenue and carrier sales. The gross profit slightly increased from approximately HK\$1.37 million for the same period of last year to approximately HK\$2.13 million for this period. The increase in overall gross profit was mainly attributable to the increase in the provision of SIP and web phones service. The loss for the period was also narrowed up from approximately HK\$2.13 million in the same period of last year to approximately HK\$2.14 million in this period, of which approximately HK\$0.18 million was sharing a loss of an associated company, nil for the same period of last year, it reflecting a significant improvement in cost reduction on the operations.

The administrative expenses decreased by approximately HK\$0.22 million from approximately HK\$4.25 million of the same period of last year to approximately HK\$4.03 million for this period.

BUSINESS REVIEW

During the nine months ended period, the Research and Development team has a significant achievement in the development of software with proven site test of integrating the voice over IP application into mobile phone usage. The Research and Development team made a lot of improvement on data compression and compatibility linking with various mobile operators, through the testing in Hong Kong and overseas. This function has extended the voice over IP application to a wider area and become more user friendly for customers.

Regarding to the expansion in the China market, the Company is dealing with a foreign English school to integrate their lessons into the Company's distance learning platform.

All the features will be new sources of revenue for the Company in the coming months. The Company is looking at new features of data application to serve the customers in a more effective and efficient way.

BUSINESS OUTLOOK

The voice over IP business is growing with the help of the new features, the Company will bring the new features to international market, after the data product is ready, and it will become a total solution for customers to communicate by voice and data. The product will be offered to Hong Kong, Mainland China and other countries.

The Company is making a lot effort on marketing the new business "Cyber Education". The Company believes cyber education will be one of the main business in future.

The Company has focusing on in-house research and development, the Company foresee that a lot of new applications will be put into service in coming months.

DIVIDEND

The Company does not recommend the payment of any dividend for the nine months ended 28 February 2009.

DIRECTORS' INTERESTS AND CHIEF EXECUTIVES' INTERESTS IN AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 28 February 2009, apart from the details as follows, the Directors and Chief Executive do not have any other interests and short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.49 to 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), were as follows:

ORDINARY SHARES OF HK\$0.01 EACH IN THE COMPANY

Name of Directors		Number of Shares held	Nature of Interest	Percentage
Mr. James Ang ("Mr. Ang")	Long position	222,271,800	Personal, Corporate and Family Interest (<i>Note</i>)	42.35%
Ms. Yau Pui Chi, Maria ("Ms. Yau") Spouse of Mr. Ang	Long position	222,271,800	Personal and Family Interest (<i>Note</i>)	42.35%

Note: These Shares are registered as to 357,800 Shares held by Mr. Ang in person, 22,000 Shares held by Ms Yau, 192,200,000 Shares in the name of Nanette Profits Limited ("Nanette"), 6,380,000 Shares in the name of Cyber Wealth Company Group Limited ("Cyber Wealth"), and 23,312,000 Shares in the name of Bluechip Combination Investments Limited ("Bluechip"). Nanette, Cyber Wealth and Bluechip are companies wholly-owned by Mr. Ang.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

Save as the interest disclosed above in respect of certain directors, the Company has not been notified of any other shareholders who had interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or recorded in the register of substantial shareholders maintained by the Company under Section 336 of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company as at 28 February 2009.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 28 February 2009.

SHARE OPTIONS SCHEME

Pursuant to written resolution of the sole shareholder of the Company dated 4 December 2002, the Company has conditionally adopted the Share Option Scheme whereby eligible participants of the scheme who the Board considers, in its sole discretion, have contributed to the Group, may be granted option to subscribe for shares.

As at 28 February 2009, no share option was granted under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in the share option scheme under the section "Share Option Scheme" of this report, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

For the nine months ended 28 February 2009, the Directors are not aware of any business or interest of the Directors, the management shareholders and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

CORPORATE GOVERNANCE PRACTICES

The corporate governance principles of the company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. Throughout the nine months ended 28 February 2009, the Group has complied with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules, except for the code provision A 2.1 stipulated in the following paragraphs.

The Code provision A 2.1 stipulates that the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Mr. James Ang is both the Chairman and CEO of the Company who is responsible for managing the Board and the Group's business. Mr. Ang has been the Chairman and CEO since the establishment of the Company. The Board considers that, with the present board structure and scope of business, there is no imminent need to separate the roles into two individuals. However, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the position of Chairman and CEO is necessary.

Under the Code provision A.4.1, non-executive Directors should be appointed for a specific term and subject to re-election. However, all the independent non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Article of Association of the Company. The Company considers that sufficient measures have been taken to ensure good corporate governance practices of the Company in this aspect of the Code.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the rules set out in Rule 5.48 to 5.67 (where applicable) of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors (the "Code"). The Company has made specific enquiry of all Directors of the Company, and the Directors have confirmed compliance with the Code during the period ended 28 February 2009.

Specific employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with the same Code. No incident of non-compliance was noted by the Company for the period ended 28 February 2009.

AUDIT COMMITTEE

The Company has established an Audit Committee with specific terms of reference explaining its role and authorities delegated by the Board. The Audit Committee currently consists of two independent non-executive Directors, Mr. Wong Kwok Fai, is the Chairman of the Audit Committee, and Mr. Chiang Kin Kon, who together have sufficient accounting and financial management expertise, legal and business experience to carry out their duties.

The duties of the Audit Committee are included reviewing the Group's financial control, internal control and risk management, reviewing and monitoring the integrity of financial statements and reviewing annual, interim and quarterly financial statements and reports before submission to the Board. The Audit Committee meets with the external auditors and the management of the Group to ensure that the audit findings are addressed properly.

The Audit Committee has reviewed the period results of the Company for the nine months ended 28 February 2009 and was content that the accounting policies of the Group are in accordance with the generally accepted accounting practices in Hong Kong.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a Remuneration Committee with specific terms of reference, which deals clearly with its authorities and duties. The Remuneration Committee currently consists of two independent non-executive Directors and an executive Director; Ms. Yau Pui Chi, Maria, an executive Director, is the Chairman of the Remuneration Committee, other members are Mr. Wong Kwok Fai, an independent non-executive Director, and Mr. Chiang Kin Kon, an independent non-executive Director. The majority members of the Remuneration Committee are independent non-executive Directors of the Company.

The role and function of Remuneration Committee is to oversee Board remuneration matters, including recommend the Board the Company's policies and structure for the remuneration of the Directors and senior management, determine the remuneration packages of all executive Directors and senior management, review compensation to Directors and senior management in connection with any loss or termination of their office or appointment and to ensure that no Director or any of his associates is involved in deciding his own remuneration.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal systems for the Company to safeguard its assets and shareholders' interests.

The Board, through the Audit Committee, reviews the internal control system of the Group annually and will take any necessary and appropriate action to maintain adequate internal control system to safeguard Company's equity. The effectiveness of the internal control system was discussed on annual basis with the Audit Committee.

BOARD PRACTICES AND PROCEDURES

During the nine months ended 28 February 2009, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

By Order of the Board
Netel Technology (Holdings) Limited
James Ang
Chairman

Hong Kong, 9 April 2009

Directors of the Company as at the date hereof.

Executive Directors:

Mr. James Ang

Mr. Wei Ren

Ms. Yau Pui Chi, Maria

Independent Non-executive Directors:

Mr. Chiang Kin Kon

Mr. Wong Kwok Fai